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Itau CorpBanca

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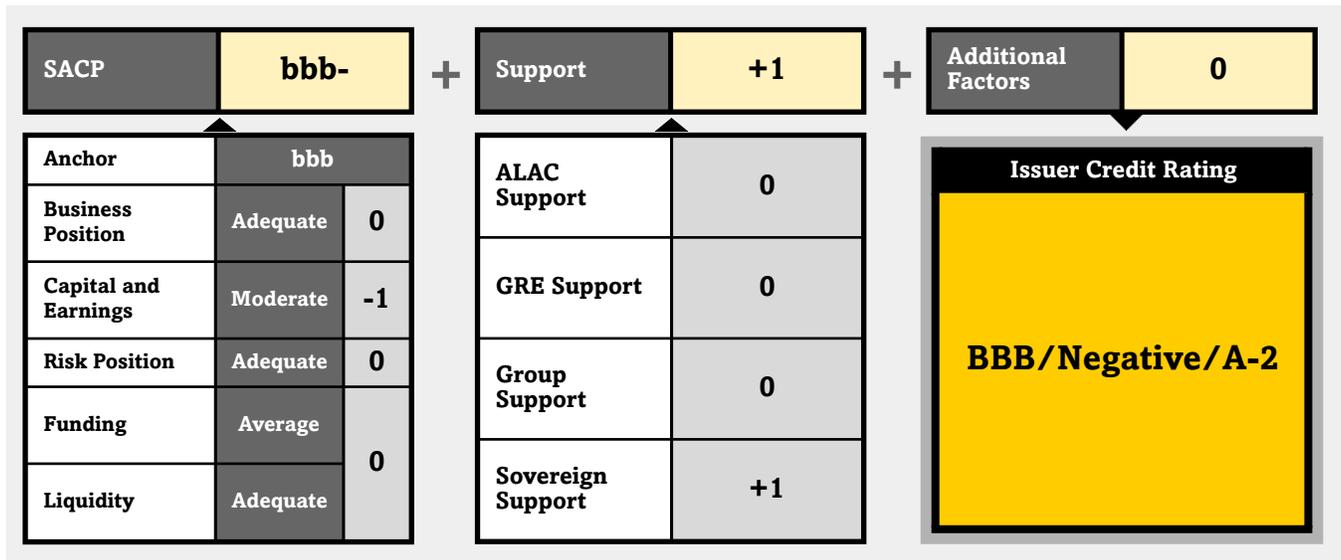
External Support: A Moderately High Likelihood Of Government Support Due To High Systemic Importance

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Itau CorpBanca



Credit Highlights

Key strengths	Key risks
Expansion of the bank's retail franchise in line with business strategy;	Chile's struggling economy due to sluggish recovery and potentially greater volatility;
Sound risk oversight and control capabilities underpinned by its parent's risk management discipline; and	Lack of market scale in Colombia that poses competitive challenges in that market; and
Lower economic and regulatory risk in Chile than those of other countries in the region.	Lower profitability than those of peers due to recent impairments.

Itau CorpBanca continues to revamp its business model by expanding the platforms, products, and segmentation of Itau Unibanco (Itaú) in the retail segment. The bank has been overhauling its strategy by widening its product offering while focusing on the core portfolio in the wholesale segment and increasing non-interest related revenue, such as cash management and financial advisory. In 2020, Itau CorpBanca ensured business continuity and took a conservative approach in terms of cost of credit, making additional provisions against bad loans. As a result, the bank's recurring net income was a loss of CLP79.4 million, compared with positive CLP154 million in 2019. As the economy regains strength, we expect Itau CorpBanca's provisioning to return to normal levels and profitability to gradually recover.

The March 2021 downgrade of Chile reflects the erosion of its public finances to a structurally weaker level amid countercyclical policies taken to cushion the harsh economic and social impact of the global pandemic and recession. Following the sovereign rating action, we also downgraded Itau CorpBanca, given that the likelihood of extraordinary government support to the lender has diminished.

Wide access to funding enables the bank to maintain sound levels of liquidity. In our view, social-distancing measures will accelerate the use of digital banking channels, providing business opportunities in the medium term to lenders offering better digital services. On the other hand, asset quality conditions for some corporate loans deteriorated in Chile and Colombia, resulting in Itau CorpBanca's weaker capital and earnings position than those of its peers, according to our capital metrics.

Strengthening capitalization levels. On June 10, 2021, Itau CorpBanca announced the filing of a Material Event Notice with the CMF (Chilean Commission for the Financial Markets), in which the board of directors agreed to convene a shareholders' meeting in July to review a capital increase. The amount in discussion is CLP830 billion, to be made through the issuance of new shares, which should be subscribed according to the terms agreed during the upcoming shareholders' meeting. This capital injection will help ease the pressure on the bank's risk-adjusted capital (RAC) ratio. Our forecast assumes that, with the capital increase, the bank will offset the equity deduction generated by the acquisition of an additional percentage in the Colombian operations, and maintain RAC levels at 6.5%-7.0% on average in the next two years.

The ratings on Itau CorpBanca incorporate one notch of government support due to a moderately high likelihood of support from Chile. In our view, there's a moderately high likelihood of support from Chile (foreign currency: A/Stable/A-1) to Itau CorpBanca if needed, given its high systemic importance and the government's supportive stance towards its financial markets in times of stress. We believe that Itau CorpBanca should remain somewhat protected from potential trouble that its lower-rated parent company, Itau Unibanco S.A. (BB-/Stable/B; stand-alone credit profile [SACP] of 'bbb') may face due to Brazil's volatile economy. This stems from Itau CorpBanca's independent funding, regulatory restrictions that limit contagion among entities of the group, an improving performance that prevents the need for financial support, and our belief that Itau Unibanco would focus on protecting its international operations, including Itau CorpBanca's, in the case of financial strain in Brazil.

Outlook: Negative

The negative outlook on Itau CorpBanca for the next 18-24 months reflects the negative trend in the economic risk of Chile's Banking Industry Country Risk Assessment (BICRA).

Downside scenario

A downgrade of Itau CorpBanca could occur if the risks among financial entities operating in Chile increase, prompting us to revise our Banking Industry Country Risk Assessment (BICRA) to a weaker category. This in turn would increase our risk charges in our RAC calculation for Itau CorpBanca. In this scenario, we believe this ratio could drop below 5%. However, we believe that the bank's downgrade could only occur following a weaker BICRA and the absence of the capital increase.

Upside scenario

We could revise the outlook on Itau CorpBanca to stable in the next 24 months if we revise our BICRA economic trend on Chile to stable, while the bank's specific factors remain unchanged. We could also revise the outlook to stable if the bank's capital ratios are consistently above 7% even in a scenario of a weaker BICRA. This could occur once Itau CorpBanca receives the capital increase towards the end of 2021.

Key Metrics

Table 1

	--Fiscal year ended Dec-31 --				
	2018a	2019a	2020a	2021f	2022f
Growth in operating revenue (%)	18.1	-0.3	-13.3	17.0-21.0	6.5-8.5
Growth in customer loans (%)	5.4	7.7	-2.4	9.0-11.0	9.0-11.0